SaskGaming

Second Quarter Report 2014

For the six months ended June 30, 2014

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CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming or the Corporation) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province of Saskatchewan. It currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA).

Casino Regina, located in Regina's historic Union Station, opened to the public on January 26, 1996 and is a full-service entertainment facility offering slot machines, table games, a Show Lounge, restaurant, and on-site parking.

Casino Moose Jaw opened September 6, 2002. It offers guests table games, slot machines, food and beverage services and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

SaskGaming's vision is as follows:

SaskGaming is the recognized leader in providing gaming entertainment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskGaming for the six month period ended June 30, 2014. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2013.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods April 1 to June 30, 2014 and January 1 to June 30, 2014 with comparative figures for 2013.

	Three months ended June 30				Six months ended June 30			
(in 000s)	2014	2013	Change	%	2014	2013	Change	%
Revenue	$ 32,693	$ 33,620	$ (927)	(2.8%)	$ 63,227	$ 64,414	$ (1,187)	(1.8%)
Expenses	19,771	21,254	(1,483)	(7.0%)	39,395	41,548	(2,153)	(5.2%)
Income before payment to General Revenue Fund	12,922	12,366	556	4.5%	23,832	22,866	966	4.2%
Payment to GRF	6,461	6,183	278	4.5%	11,916	11,433	483	4.2%
Net Income	$ 6,461	$ 6,183	$ 278	4.5%	$ 11,916	$ 11,433	$ 483	4.2%

SaskGaming's income before payment to the GRF for the second quarter of 2014 was $12.9 million, an increase over the same period in 2013 of $0.6 million. Revenues decreased $0.9 million, and expenses decreased $1.5 million.

Year to date income before payment to the GRF was $23.8 million, an increase of $1.0 million. Revenues decreased $1.2 million and expenses decreased $2.2 million.

1. Revenue
   Revenue for the second quarter was $32.7 million, a decrease of $0.9 million over the same period in 2013. Gaming revenues decreased $1.1 million and ancillary revenues increased $0.2 million. Year to date revenue was $63.2 million, a decrease of $1.2 million from the 2013 due to a decline in gaming revenues. The gaming revenue decrease is due to a $1.7 million decline in slot revenues offset by a $0.5 million increase in table revenues. Guest counts at Casino Regina increased 3.2% from the prior year and at Casino Moose Jaw guest counts decreased 8.0%, which resulted in an overall increase in guest counts year to date of 0.9% from 2013. Although overall guest counts have improved slightly over the prior year, the average spend for slot guests remains below 2013 levels.

2. Expenses
   Total expenses for the second quarter were $19.8 million, a decrease year over year of $1.5 million. Year to date expenses were $39.4 million, a decrease of $2.2 million from 2013. The decrease is due primarily to a reduction in SaskGaming's salaries and benefits expenses. FTE (full time equivalent) expense reductions, including the FTE reductions from the organizational restructuring that took place in October of 2013, resulted in savings of approximately $1.8 million in salary and benefit expenses.

OUTLOOK

The Corporation's income before payment to GRF target for 2014 is $50.4 million. At the end of the second quarter, income before payment to GRF is above budget by $0.4 million. Net revenues are below budget by $2.7 million. SaskGaming has not experienced the anticipated revenue growth in 2014 due to lower guest spend. The casino gaming market in Saskatchewan and across Canada has matured, resulting in flattening or declining revenues in most jurisdictions.

The corporation has used strong expense management to achieve its income before payment to the GRF target through Q2. The corporation will continue to monitor expenses closely in the second half of the year although it does not anticipate significant savings in expenses. Accordingly, SaskGaming continues to forecast a net income before payment to GRF of $50.4 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	$ 15,790	$ 10,841
Accounts receivable	328	419
Inventory	265	321
Prepaid expenses	1,586	638
	17,969	12,219
Property, plant and equipment	63,596	66,638
	$ 81,565	$ 78,857
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 9,871	$ 11,810
Payable to the General Revenue Fund	6,462	3,267
Dividend payable	5,040	1,578
Short term advance	---	3,000
Current portion of long-term debt	7,523	7,476
Current portion of finance lease obligation	261	955
	29,157	28,086
Long-term debt	2,473	3,246
Finance lease obligation	6,657	6,083
	38,287	37,415
Equity advance	4,000	4,000
Retained earnings	39,278	37,442
	43,278	41,442
	$ 81,565	$ 78,857

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and six months ended June 30
(Unaudited)

(in 000s)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenue	$ 32,693	$ 33,620	$ 63,227	$ 64,414
Operating expenses	16,215	17,732	32,230	34,568
Depreciation	1,778	1,626	3,551	3,205
Taxes	736	826	1,518	1,628
Contractual obligations	754	754	1,508	1,508
Finance expense	288	316	588	639
Income before payment to the General Revenue Fund	12,922	12,366	23,832	22,866
Payment to the General Revenue Fund	6,461	6,183	11,916	11,433
Net income	6,461	6,183	11,916	11,433
Other comprehensive income	---	---	---	---
Comprehensive income	$ 6,461	$ 6,183	$ 11,916	$ 11,433

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 30
(Unaudited)

(in 000s)	June 30, 2014			June 30, 2013		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	$ 37,442	$ 4,000	$ 41,442	$ 33,333	$ 4,000	$ 37,333
Comprehensive income	11,916	---	11,916	11,433	---	11,433
Dividends	(10,080)	---	(10,080)	(10,128)	---	(10,128)
Balance as at June 30	$ 39,278	$ 4,000	$ 43,278	$ 34,638	$ 4,000	$ 38,638

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended June 30
(Unaudited)

(in 000s)	2014	2013
Operating activities:		
Net income	$ 11,916	$ 11,433
Adjustments for:		
Finance expense	588	639
Depreciation	3,551	3,231
Gain on sale of property, plant and equipment	---	(26)
Changes in non-cash working capital balances:		
Accounts receivable	91	90
Inventory	56	25
Prepaid expenses	(948)	(1,271)
Trade and other payables	(1,939)	(820)
Payable to the General Revenue Fund	3,195	(3)
	16,510	13,298
Investing activities:		
Proceeds from sale of property, plant and equipment	---	84
Purchases of property, plant and equipment	(509)	(3,283)
	(509)	(3,199)
Financing activities:		
Dividends paid	(6,618)	(10,735)
Interest paid	(588)	(639)
Repayment of short term advance	(3,000)	---
Repayment of finance lease obligation	(120)	(109)
Repayment of long-term debt	(726)	(681)
	(11,052)	(12,164)
Increase (decrease) in cash	4,949	(2,065)
Cash, beginning of period	10,841	10,583
Cash, end of period	$ 15,790	$ 8,518

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(Unaudited)

1. Description of Business

The Saskatchewan Gaming Corporation (SaskGaming) is a corporation domiciled in Canada. The address of SaskGaming's registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2.

SaskGaming manages and operates Casino Regina and Casino Moose Jaw. SaskGaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. SaskGaming must operate in accordance with statutory provisions established under Section 207 of the *Criminal Code of Canada* and *The Alcohol and Gaming Regulation Act, 1997*. Regulation of SaskGaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government's holding corporation for its commercial Crown corporations. The financial results of SaskGaming are included in the consolidated financial statements of CIC.

2. Basis of Preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 28, 2014.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: useful lives of property, plant and equipment and the customer loyalty program.

3. Significant Accounting Policies

The accounting policies applied by SaskGaming in these condensed consolidated interim financial statements are consistent with those applied by SaskGaming in its December 31, 2013 annual financial statements.

4. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

The fair values of long term debt and finance lease obligation are estimated by discounting the expected future cash flows using the interest rate of a Government of Canada bond with similar terms, adjusted for an appropriate risk premium.

(in 000s)			June 30, 2014		December 31, 2013	
Financial Instruments	Classification [1]	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	$ 9,996	$ 10,270	$ 10,722	$ 11,125
Finance Lease obligation	OFL	Level Two	6,918	8,293	7,038	8,206

[1] Classification:
OFL - Other financial liabilities